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Treasury and IRS Issue Guidance Clarifying New Legislation Providing Hurricane Katrina Victims Access to Their Retirement Savings

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WASHINGTON — Treasury and the IRS issued Notice 2005-92 today, which provides guidance relating to the application of two provisions of the Katrina Emergency Tax Relief Act of 2005 (KETRA) for Hurricane Katrina victims and employer-sponsored retirement plans and IRAs.

Under one provision of KETRA, individuals who live in one of the four states affected by Hurricane Katrina and who suffered an economic loss as a result of that hurricane receive favorable tax treatment with respect to distributions from eligible retirement plans that are qualified Hurricane Katrina distributions, called "Katrina distributions."

A Katrina distribution is not subject to the 10% additional tax applicable to early distributions from a retirement plan (25% in the case of a Simple IRA), is generally includible in income over a 3-year period, and -- to the extent the distribution is eligible for tax-free rollover treatment and is contributed to an eligible retirement plan (recontributed) within a 3-year period -- will not be includible in income at all.

Another provision of KETRA increases the allowable plan loan amount from an employer-sponsored retirement plan and provides for a suspension of payments for plan loans outstanding on or after August 25, 2005 that are made to Katrina victims.

This notice provides guidance for plan sponsors, service providers, and participants, as well as IRA owners, who choose to use the valuable benefits provided under these two KETRA provisions.

A copy of Notice 2005-92 is attached.